

# [The new chemistry of speculation](https://assignbuster.com/the-new-chemistry-of-speculation/)

Yes, they are. I agree with the lawmakers in their concern that speculation is driving up commodity prices in general. It’s very alarming the surge in investments by big institutions such as pension funds and university endowments allocating money to commodities tied to indexes that track future exchanges. Seeing how big institutions have invested $260 billion in commodities compared with $13 billion that they used to invest only 5 years ago.

Additionally, there are many economist and investors that attributes high commodities prices to demand for emerging economies and production squeezes. As proof this we have iron ore that although it wasn’t traded on a futures exchanges and its price surged last year, the price Chinese steelmaker pay to Australian miners has nearly doubled. These same index speculators have also been driving up prices for oil and other natural resources. I think something needs to be created in order to limit what investors can channel into commodities they don’t intend to own.

As mentioned on this article, it is going to be very hard to curb commodities speculation, and this trading is spreading fast to an array of others goods that as the iron ore have been off-limits to investors because they aren’t traded on future markets. A real example is how the iron ore deals became in only two month one of the biggest commodities markets. 3. What happens during the monthly settlements on the iron ore contracts created by Credit Suisse and Deutsche Bank?

During the monthly settlements on the iron ore contracts created by Credit Suisse and Deutsche Bank the deals are set against an index of iron-ore spot trades establishing a floating price, the price steelmakers pay to take delivery immediately, but no physical delivery is taken. Instead, there is a net payment in cash of the difference between the set price and the floating price determined by the index of the spot price that steelmakers pay for iron ore that is delivered immediately. The minimum transaction with Credit Suisse’s is 5000 metric tons. 4.

Do the monthly settlements make the contracts more attractive to speculators or to iron ore producers and users who want to hedge? Explain. Because iron ore is a commodity very sensitive to changes in global economics conditions, I believe that these monthly settlements make these contracts more attractive to speculators. As a global commodity the price of the iron ore normally fluctuate with changes in worldwide industrial demands, that’s why under the terms of these contracts being able to predict the price of this commodity is a real advantage for speculators. In addition they have the benefit of influence on the iron ore spot prices.